

Message Text

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ACTION EB-08

INFO OCT-01 EA-10 ISO-00 CIAE-00 INR-10 NSAE-00 COME-00

TRSE-00 AID-05 OPIC-03 OMB-01 DOE-15 SOE-02 INT-05

EUR-12 /072 W

-----038870 130937Z /13

R 130810Z JUN 78

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 9490

C O N F I D E N T I A L JAKARTA 7878

E.O. 11652: GDS

TAGS: EMIN, ENRG, ID

SUBJECT: EMBASSY SUPPORT FOR U.S. FIRMS TO DEVELOP
SOUTH SUMATRA COAL RESOURCES

1. WHEN I SAW MINISTER OF MINES AND ENERGY SUBROTO ON JUNE 12, I RAISED WITH HIM THE IMMINENT GOI DECISION ON A FIRM TO HANDLE THE BUKIT ASAM COAL MINING AND TRANSPORTATION PROJECT. I NOTED THAT THREE LARGE AND REPUTABLE AMERICAN COMPANIES WERE BIDDING FOR THIS CONTRACT -- DRAVO, FLOUR AND MORRISON-KNUDSEN. ALL THREE HAD HAD EXTENSIVE EXPERIENCE IN INDONESIA AND ALL WERE FULLY CAPABLE OF HANDLING A PROJECT OF THIS MAGNITUDE.

2. I TOLD SUBROTO THAT THERE WAS WIDESPREAD DISCUSSION IN JAKARTA TO THE EFFECT THAT THE CANADIAN GOVERNMENT HAS OFFERED TO SUPPLEMENT WORLD BANK FINANCING FOR THIS PROJECT, PRESUMABLY IF A CANADIAN FIRM GETS THE BID. I ASSURED SUBROTO THE U.S. EXIM BANK HAS ALREADY INDICATED TO THE U.S. CONTENDERS THAT IT WOULD BE WILLING TO CONSIDER FINANCING U.S. GOODS AND SERVICES FOR THE PROJECT. I NOTED ALSO THAT WE SUPPORTED THE GOI'S ENERGY STRATEGY OF SUBSTITUTING COAL FOR OIL AND, AS REPORTED SEPTEL, OUTLINED FOR HIM POSSIBLE AREAS OF U.S.-GOI COOPERATION IN THE ENERGY FIELD.

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3. I NOTED ALSO THAT WHILE THE THREE U.S. COMPANIES BIDDING FOR THE PROJECT HAD THE ABILITY TO HANDLE IT THEMSELVES, THE OTHER CONTENDERS WERE CONSORTIA BROUGHT TOGETHER TO BID ON THIS ONE JOB. THIS RAISED QUESTIONS ABOUT THEIR ABILITY TO COORDINATE THEIR WORK PROGRAMS. MOREOVER, TIED AID ALONG LINES OF THE REPORTED CANADIAN OFFER WOULD LIMIT INDONESIA'S ABILITY TO SELECT THE BEST, CHEAPEST AND MOST READILY

AVAILABLE MATERIAL. IT SEEMED TO ME THAT A MARKET BASKET OF FINANCING -- WORLD BANK, EXIM, SIMILAR INSTITUTIONS IN OTHER COUNTRIES, AND COMMERCIAL BANKS -- WOULD GIVE INDONESIA MAXIMUM FLEXIBILITY IN PROCURING THE BEST AVAILABLE EQUIPMENT TO CARRY OUT THIS IMPORTANT PROJECT. I CONCLUDED BY SAYING THAT I COULD NOT SUPPORT ANY ONE OF THE AMERICAN BIDDERS OVER THE OTHERS. ALL THREE WERE HIGHLY COMPETENT AND I HOPED THEY WOULD BE GIVEN THOROUGH AND FAVORABLE CONSIDERATION BY THE GOI. SUBROTO SAID HE WAS AWARE OF THE GOOD WORK WHICH HAD BEEN DONE IN INDONESIA BY THESE THREE FIRMS. HE GAVE NO INDICATION OF THE LIKELY OUTCOME, BUT PROMISED TO LET ME AND THE COMPANIES KNOW IF THE GOI REQUIRED ANY ADDITIONAL INFORMATION BEFORE MAKING A FINAL DECISION. HE SAID HE EXPECTED A DECISION WITHIN ONE MONTH.

4. COMMENT: I ALSO DISCUSSED THIS MATTER WITH MINISTER OF COMMUNICATIONS RUSMIN NURJADIN ON MAY 31 (SEE MEMORANDUM OF CONVERSATION DATED MAY 31, POUCHED TO DEPARTMENT). RUSMIN ALSO MENTIONED HIS AWARENESS OF THE GOOD WORK DONE BY THE THREE AMERICAN FIRMS. HOWEVER, BOTH HE AND SUBROTO ARE OBVIOUSLY ATTRACTED BY THE OFFER OF CONCESSIONAL CNADAIAAN ASSISTANCE TO SUPPLEMENT THAT PROVIDED BY THE WORLD BANK. MY JUDGEMENT IS THAT THE U.S. FIRMS FACE AN UPHILL FIGHT, BUT WE WILL CONTINUE TO SUPPORT THEIR EFFORTS TO PIN DOWN THIS LARGE CONTRACT. MASTERS
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: COAL, TECHNICAL ASSISTANCE, MINING, INTERGOVERNMENTAL COOPERATION, BUSINESS FIRMS
Control Number: n/a
Copy: SINGLE
Draft Date: 13 jun 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978JAKART07878
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780246-0661
Format: TEL
From: JAKARTA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780666/aaaacews.tel
Line Count: 94
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: bb63498a-c288-dd11-92da-001cc4696bcc
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 30 apr 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2377496
Secure: OPEN
Status: NATIVE
Subject: EMBASSY SUPPORT FOR U.S. FIRMS TO DEVELOP SOUTH SUMATRAN COAL RESOURCES
TAGS: EMIN, ENRG, ID, DRAVO, FLOUR, MORRISON-KNUDSEN
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/bb63498a-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014